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THE IMPACT OF INHERITANCES ON THE HOUSING AND MORTGAGE MARKETS IN CANADA OVER THE NEXT 10 YEARS

Introduction

This study examines the potential impact on housing and mortgage markets of inheritances and *inter vivos* gifts (i.e. money given while the donor is still living) over the 10-year period 1997 to 2006. It utilizes existing literature on the topic of inheritances, a variety of available information sources, and some additional data collected in 1996 for this study from a survey of households.

It examines:

- the extent of wealth held by seniors (persons aged 65 and older) and the amount anticipated to be transferred to younger generations through inheritance;
- the expected recipients and anticipated uses of future inheritances; and
- the impact of inheritances on the housing and mortgage markets.

Table 1. The Wealth of Seniors in Canada

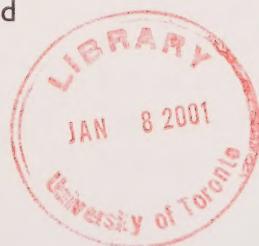
	per Senior, in thousands of 1996 dollars				
	1970	1977	1984	1987	1994
Average wealth	93	124	137	191	188

The amount of wealth that will be transferred from older to younger Canadians via inheritances and gifts of money is expected to grow steadily from 1997 to 2006. The total value is projected at \$12.7 billion (in \$1996) per year, of which \$10.9 billion (86%) is expected to be in the form of inheritances and \$1.8 billion (14%) in the form of monetary gifts. The total value is 25% higher than the \$10.4 billion (also in \$1996) per year transferred in the first half of the 1990s.

Findings

The wealth of seniors has more than doubled

The extent of wealth of seniors in Canada has more than doubled, from an estimated \$93,000 per capita (in 1996 dollars) in 1970 to \$188,000 in 1994 (see Table 1). Most of this growth occurred in the period to 1987.



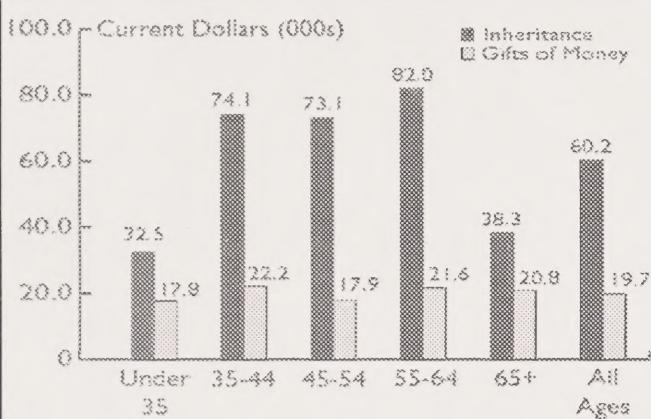
HOME TO CANADIANS

Canada

Monetary gifts go mostly to younger recipients

The most common wealth transfers are from parents to children. The average values of each of inheritances and monetary gifts in 1991 through 1996 are shown in Figure 1. Monetary gifts are a much more important component (55%) of the value transferred to the under-35 age group than for older groups. Some 71% of monetary gifts and 32% of inheritances went to households headed by persons under age 44 who constitute a demographic group important for home buying, additions and renovations, and related financing.

Figure 1. Average Value of Inheritance/Gifts of Money in 1991-1996 by Age Group* of Household Head, Canada



* Age group in 1996, not when received inheritance gift

Source: The FIRM Residential Mortgage Survey, custom research commissioned by CMHC, September 1996

Over the period to 2006, the bulk of the money is expected to go to baby boomers now in the 30-to-50 age group. For recipients aged 45 and older, the growth in the total amounts of inheritances and monetary gifts is expected to be almost exactly offset by the growth in the number of households sharing in the amounts transferred, so little change is expected in the amounts received per household. For recipients aged under 45, there is expected to be moderate growth in the amounts received per household.

A large portion goes to housing and mortgage market related uses

Over one-third (35%) of households receiving inheritances and almost half (49%) of those receiving monetary gifts used them to purchase property, make renovations, or pay down mortgage debt (see Table 2).

Table 2. Primary Uses Made of Inheritances and Monetary Gifts

Primary use of funds received	Inheritances	Monetary Gifts
	Percent of receiving households	
Purchased property	16	33
Made renovations	11	6
Paid-down mortgage debt	8	10
Subtotal housing/mortgage related	35	49
All other uses	65	51
Total	100	100

About \$2.7 billion annually, comprised of one-quarter of the value of inheritances and one-third of monetary gifts, are expected to be used primarily for housing purposes (see Table 3). This includes uses such as down payments on a first home, trading up to a more expensive home, renovations, and vacation homes. An additional \$0.9 billion is expected to be used for paying down existing mortgage debt. The annual total going into housing and mortgage markets is expected to average \$3.6 billion per year. The renovation sector and the mortgage market are expected to account for about two-thirds of this.

But the impact is relatively small

Relative to the size of housing and mortgage markets, the impacts of these totals are small. The largest such impact, that on the renovation sector, would account for about 8% of the size of the sector.¹ The impacts on the markets of first homes are expected to be about 2% for each of new and existing units, and the impacts on move-up markets are some 1% for new units and well under 1% for

Table 3. Size and Relative Importance of Flows of Inheritances and Gifts of Money into the Housing and Mortgage Markets, Canada*

	Average Annual Flows of Inheritances and Gifts of Money into Each market Sector				Expressed as % of the Total Estimated Value of the Sector in 1996	
	Estimated Size of Market in 1996	Change 1996-2006			Change 1996-2006	
		Estimated 1991-1999	Projected 1996-2006	Relative to 1991-1996	Projected 1996-2006	Relative to 1991-1996
<i>Millions of 1996 Constant Dollars</i>						
First home market, new	7,000	107	126	19	1.80%	0.27%
First home market, existing	20,000	403	488	84	2.44%	0.42%
Move-up market, new	16,000	150	180	30	1.12%	0.19%
Move-up, existing	28,000	80	102	21	0.36%	0.08%
Vacation home/investment property market	n.a.	269	329	60	n.a.	n.a.
Renovation	19,000	1,173	1,442	269	7.59%	1.42%
Total	n.a.	2,182	2,666	484	n.a.	n.a.
Subtotal new home market	23,000	257	306	49	1.33%	0.21%
Subtotal existing home new	48,000	484	589	106	1.23%	0.22%
Subtotal first-time buyer new	27,000	511	614	103	2.27%	0.38%
Subtotal move-up buyer	44,000	230	281	52	0.64%	0.12%
Mortgage market**	359,000	-756	-931	-176	-0.26%	-0.05%

* The analysis here shows only the flows of inheritance and gifts of money into each sector—it does not necessarily reflect the net impact that these flows will ultimately have on each market sector.

** The values for the mortgage market are shown as negatives, since they represent amounts by which households use inheritances and gifts of money to pay down their mortgage.

Source: Estimates and projections by Clayton Research

existing units. The impact on the mortgage market is also expected to be well under 1%.

When only the incremental amounts over and above the transfers in the period 1991 to 1996 are considered, the average annual impacts anticipated over the period to 2006 are minuscule relative to the size of the housing and mortgage markets (see last column of Table 3).

The study suggests the following implications of inheritances for various housing market participants:

- **Mortgage insurers.** The expected impact on the first-time buyer is very small relative to the size of the market. There is thus likely to be no significant change in the need for mortgage insurance over the period.
- **Mortgage lenders.** There is unlikely to be a detrimental impact on the mortgage market from a lender's perspective. Relatively few recipients are expected to use inheritances and monetary gifts to pay down mortgage debt. Rather, much of the money is expected to be used for other purposes, including paying down non-mortgage debt.

- **New home builders.** Relatively few recipients are expected to use inheritances or monetary gifts to help purchase a newly built home. The existing home market is expected to benefit to a larger extent. Only an extra \$50 million per year (in 1996 dollars) is expected to flow into new homes.
- **Renovators.** An additional \$269 million (in 1996 dollars) per year is expected to flow into the renovation market.
- **Building product manufacturers and suppliers.** A modest boost in sales can be expected, with most coming from the additional activity in the renovation market.
- **Recreational property developers.** An extra \$60 million (in 1996 dollars) per year is expected to flow into vacation and investment properties.

Conclusion

Although they are projected at \$12.7 billion (in \$1996) per year, monetary inheritances and *inter vivos* gifts are likely to have only a very small impact on the housing and mortgage markets over the period 1997 to 2006. This is because only about one-quarter to one-third of this money is expected to be used for housing or mortgage-related purposes, and these amounts are very small relative to the size of these markets. The expected overall impacts range from well under 1% on the mortgage market to some 8% on the renovation sector. When only the incremental amounts over and above the transfers in the period 1991 to 1996 are considered, the impacts are minuscule relative to the size of the housing and mortgage markets.

Notes:

¹ The analysis shows only the flow of inheritances and monetary gifts directly into each sector. The development of a behaviour model which would enable examination of net impacts was beyond the scope of the work.

Canada Mortgage & Housing Corporation
Announces
Housing in Canada electronic database

CMHC is making a new desktop database, *Housing in Canada*, available for public use in fall 2000. For the first time ever, users will have hands-on access to CMHC's custom census-based household and housing conditions data.

Housing in Canada

- **Presents** key demographic and socio-economic data (e.g., household type, income, age, gender and period of immigration) matched to comprehensive housing data (e.g., dwelling type, age and condition; tenure; shelter cost; suitability; affordability and the existence and depth of housing need).
- **Employs** today's recognized standards for housing suitability, adequacy and affordability to facilitate the assessment of the state of Canada's housing (see, for example, CMHC's Socio-Economic Research Highlights Issue 55-2 and others in the series available on our Web site, www.cmhc-schl.gc.ca/Research).
- **Profiles** most of Canada's households:
 - non-farm, non-Native;
 - non-farm, Native off-reserve;
 - Native on-reserve; and
 - farm households.
- **Includes** aggregated data for:
 - Census Metropolitan Areas (CMAs), and main subdivisions (CSDs);
 - Regional Municipalities;
 - residual non-CMA urban and rural areas; and
 - provinces, territories, and Canada.
- **Focuses** on 1996, but provides comparison data for 1991 to enable you to identify the direction and extent of recent changes in your community's housing.
- **Runs** easily on bilingual *Beyond 20/20* software included with the database.

CMHC is now accepting orders for this new research product.

For price and other information, including academic discounts, contact:
Mr. John Engeland, Research Division, CMHC
700 Montreal Road, Ottawa ON Canada K1A 0P7
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CMHC Project Manager: David Metzak

Research Highlights prepared by Ian Melzer

Research Report: *The Impact of Inheritances on the Housing and Mortgage in Canada over the Next Ten Years*

Research Consultants: Clayton Research Consultants Limited.

A full report on this project is available from the Canadian Housing Information Centre at the address below.

Housing Research at CMHC

Under Part IX of the *National Housing Act*, the Government of Canada provides funds to CMHC to conduct research into the social, economic and technical aspects of housing and related fields, and to undertake the publishing and distribution of the results of this research.

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